

31st December 2021

BSE Limited
Listing Department
Dalal Street,
Mumbai 400 001
Scrip Code: 532432

National Stock Exchange of India Limited
Exchange Plaza, C-1 Block G,
Bandra Kurla Complex,
Bandra East, Mumbai- 400051
Scrip Code: MCDOWELL-N

Dear Sirs,

Sub: Intimation of revision of credit rating

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, we attach herewith the rating rationale issued by CRISIL (formerly Credit Rating Information Services of India Limited) and uploaded on their website toady i.e. 31st December 2021.

This is for your information and records.

Thank you,
For United Spirits Limited

Mital Sanghvi
Company Secretary

Encl: as above



Rating Rationale

December 31, 2021 | Mumbai

United Spirits Limited

Long-term rating upgraded to 'CRISIL AAA/Stable'; short-term rating reaffirmed; debt instruments withdrawn

Rating Action

Total Bank Loan Facilities Rated	Rs.2800 Crore (Reduced from Rs.3925 Crore)
Long Term Rating	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Positive')
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.750 Crore Non Convertible Debentures	Withdrawn
Rs.500 Crore Commercial Paper	CRISIL A1+ (Withdrawn)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of United Spirits Limited (USL) to '**CRISIL AAA/Stable**' from 'CRISIL AA+/Positive'; while reaffirming its 'CRISIL A1+' rating on the short-term bank facilities.

CRISIL Ratings has also **withdrawn** its rating on Rs 750 crore non-convertible debentures, Rs 500 crore commercial paper programme and Rs 1,125 crore of bank loan facilities of USL based on client request and on receipt of independent confirmation and requisite documents. The withdrawal is in line with the CRISIL Ratings' policy of withdrawal.

The upgrade reflects a belief that the financial risk profile of USL will improve in the near term, given significant deleveraging achieved, strong cash accrual of around Rs 1,000 crore and modest capital expenditure (capex) plans of around Rs 250 crore while sustaining the leadership position in domestic Indian-made foreign liquor (IMFL) segment along with strong operating efficiency.

The company has repaid its entire long-term loan and reduced working capital debt, thereby improving the capital structure; gearing reduced to 0.19 time as on September 30, 2021, as compared to 0.73 time as on March 31, 2020. Similarly, the net debt to EBITDA (earnings before interest taxes depreciation and amortisation) improved to 0.5 time during the first half of fiscal 2022 as compared to 0.7 time and 1.5 times during fiscals 2021 and 2020, respectively.

Operating performance also improved significantly after gradual reopening of the economy from the second quarter of last fiscal. Operating income increased by 31% on-year during the first half of fiscal 2022, while the operating margin increased to 15.5% from 6.6% due to higher fixed cost absorption despite marginal rise in the raw material prices. The operating margin is expected to sustain over 15% during the medium term, driven by various measures undertaken over the past several years including premiumisation of products and leveraging of fixed overheads.

The ratings continue to reflect a leadership position in the spirits industry in India, strong and diversified product portfolio, and operational and technical support it receives from its parent, Diageo plc (rated 'A-/Stable/A2' by S&P Global Ratings [S&P]). These strengths are partially offset by exposure to regulated nature of the industry.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of USL and its subsidiaries as they are in the same line of business and have a common management. The ratings also factor in the support USL receives from its ultimate parent, Diageo Plc, which holds 55.94% stake in the company.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Leadership position in the spirits industry in India**

USL has around 25% share in the Indian spirits industry, driven by its strong brand equity, wide product portfolio across product categories as well as price points and PAN India presence. The company has a strong distribution network and point-of-sale coverage; it operates via over 70,000 outlets across India. It has 14 own operational manufacturing facilities across eight states in India. These are in addition to many third-party facilities producing alcoholic beverages for USL.

- **Strong and diversified product portfolio with established brands**

USL benefits from strong brand awareness with a diverse range of products across various price points operating in all segments of popular, prestige, premium and luxury. The company has nine brands that sell more than a million cases each year, of which one brand sells more than 25 million cases annually. Its portfolio also includes several global brands such as McDowell's No 1 (brandy), Celebration (Rum), Blue Riband (Gin), Romanov, as well as a solid portfolio of local brands and premium products. The company has also entered the Indian craft segment under the brand, Epitome Reserve, which is India's first 100% rice grain whisky.

- **Operational and technical support it receives from parent, Diageo Plc**

USL shares strong linkages with the Diageo group (holding 55.94% stake), which has complete management control over the entity. There are strong business synergies with the implementation of global best practices across functions while USL also has access to some of the premium brands of Diageo (such as Johnnie Walker, Smirnoff and Baileys). The company also receives strong management and operational support from the parent. Further, the company is planning to enter into the craft beer segment in India using the brand, Guinness, which is one of the globally recognised brands of Diageo.

Weakness:

- **Exposure to regulated nature of industry**

USL remains exposed to regulated nature of the industry due to restrictions by the state governments on production, movement and sale of spirits. The distribution remains highly controlled by the government in most of the states while in some of the states, pricing is also controlled. The company remains exposed to changing regulatory environment in the past. Fiscals 2020 and 2021 saw significant increase in excise duty across various states, which also impacted the operating performance. In the past, fiscal 2018 was a disruptive year for the Industry owing to implementation of the Goods and Services Tax and the Supreme Court ruling to ban liquor vendors within 500 metre of national and state highways impacted 30,000 stores (30-40% of the total liquor vendors). Similarly, the industry has also seen complete ban on liquor sale by some of the states in the past. However, this is partly offset by Pan-India presence of USL and the regulations largely driven by the respective states.

Liquidity: Superior

Liquidity is likely to remain healthy. In the absence of any repayment obligation, cash accrual – projected at around Rs 1,000 crore per annum for fiscals 2022 and 2023 – should aid financial flexibility. Cash and cash equivalents were Rs 64 crore as on September 30, 2021. The fund-based limit of Rs 2,675 crore was barely utilised, at 20% on an average over the 12 months through September 2021. The surplus cash available in cash accrual, bank lines and cash and cash equivalents should be sufficient to meet the yearly capex of around Rs 250 crore and incremental working capital requirement.

Outlook: Stable

USL will continue to benefit from its leading market position and healthy operating efficiencies along with ongoing support from the parent.

Rating Sensitivity factors

Downward factors

- Downgrade in rating of parent by S&P or change in stance of support from the parent
- Operating performance adversely affected, with operating margin below 10% on a sustained basis and/or debt-funded capex/acquisition, leading to net debt to Ebitda ratio over 1.5 times on a sustained basis

About the Company

USL is the largest Indian spirits company that manufactures, sells and distributes beverage alcohol, producing and selling around 80 million cases of Scotch whisky, IMFL whisky, brandy, rum, vodka, gin and wine. Its portfolio of over 80 brands includes McDowell's No.1, Royal Challenge, Signature, and Antiquity as well as Diageo's iconic brands such as Johnnie Walker, VAT 69, Black & White, Smirnoff and Ciroc.

For the six months through September 2021, the company reported consolidated profit after tax (PAT) of Rs 337 crore on operating income of Rs 4,229 crore against loss of Rs 199 crore on operating income of Rs 3,228 crore for the corresponding period of the previous fiscal.

Key Financial Indicators (Consolidated)*

As on/for the period ended March 31		2021	2020
Operating income	Rs crore	8,040	9,280
PAT	Rs crore	362	621
PAT margin	%	4.5	6.7

Adjusted debt/adjusted networkth	Times	0.24	0.73
Adjusted interest coverage	Times	5.8	7.2

*As per analytical adjustments made by CRISIL Ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 days	500.00	Simple	Withdrawn
INE854D08011	Non-Convertible Debentures	28-Dec-17	7.45	28-Dec-20	750.00	Simple	Withdrawn
NA	Fund-Based Facilities*	NA	NA	NA	1925.00	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities	NA	NA	NA	300.00	NA	CRISIL AAA/Stable
NA	Non-Fund Based Limit^	NA	NA	NA	450.00	NA	CRISIL A1+
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	125.00	NA	CRISIL AAA/Stable
NA	Non-Fund Based Limit^	NA	NA	NA	50.00	NA	Withdrawn
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	75.00	NA	Withdrawn
NA	Fund-Based Facilities*	NA	NA	NA	1000	NA	Withdrawn

*Interchangeable with non-fund-based limit

^Interchangeable with fund-based limit

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Asian Opportunities & Investments Ltd	Fully consolidated	Same business and close business linkages
Liquidity, Inc (up to December 18, 2020)	Fully consolidated	Same business and close business linkages
Tern Distilleries Pvt Ltd (up to January 27, 2021)	Fully consolidated	Same business and close business linkages
Palmer Investment Group Ltd (merged with UB Sports Management Overseas Ltd w.e.f. July 15, 2020)	Fully consolidated	Same business and close business linkages
Shaw Wallace Overseas Ltd	Fully consolidated	Same business and close business linkages
Montrose International SA*	Fully consolidated	Same business and close business linkages
USL Holdings Ltd	Fully consolidated	Same business and close business linkages
USL Holdings (UK) Ltd	Fully consolidated	Same business and close business linkages
United Spirits (UK) Ltd	Fully consolidated	Same business and close business linkages
United Spirits (Great Britain) Ltd	Fully consolidated	Same business and close business linkages
McDowell & Co. (Scotland) Ltd	Fully consolidated	Same business and close business linkages
Royal Challengers Sports Pvt Ltd	Fully consolidated	Same business and close business linkages
United Spirits (Shanghai) Trading Company Ltd	Fully consolidated	Same business and close business linkages

Sovereign Distilleries Ltd	Fully consolidated	Same business and close business linkages
Pioneer Distilleries Ltd	Fully consolidated	Same business and close business linkages
United Spirits Singapore Trading Pte Ltd (Formerly known as Whyte and Mackay Singapore Pte Ltd)	Fully consolidated	Same business and close business linkages
Hip Bar Pvt Ltd**	Equity method	Same business and close business linkages

* - Montrose International ceased to be a subsidiary with effect from April 16, 2021.

** USL sold its entire stake (equity shares) and compulsory convertible preference shares through a share purchase agreement on August 03, 2021

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	3425.0	CRISIL AAA/Stable		--	30-12-20	CRISIL AA+/Positive	30-12-19	CRISIL AA+/Positive	13-12-18	CRISIL AA+/Stable	CRISIL AA+/Stable
			--		--		--		--	30-11-18	CRISIL AA+/Stable	--
Non-Fund Based Facilities	ST	500.0	CRISIL A1+		--	30-12-20	CRISIL A1+	30-12-19	CRISIL A1+	13-12-18	CRISIL A1+	CRISIL A1+
			--		--		--		--	30-11-18	CRISIL A1+	--
Commercial Paper	ST	500.0	Withdrawn		--	30-12-20	CRISIL A1+	30-12-19	CRISIL A1+	13-12-18	CRISIL A1+	CRISIL A1+
			--		--		--		--	30-11-18	CRISIL A1+	--
Non Convertible Debentures	LT	750.0	Withdrawn		--	30-12-20	CRISIL AA+/Positive	30-12-19	CRISIL AA+/Positive	13-12-18	CRISIL AA+/Stable	CRISIL AA+/Stable
			--		--		--		--	30-11-18	CRISIL AA+/Stable	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Fund-Based Facilities*	350	CRISIL AAA/Stable
Fund-Based Facilities*	225	CRISIL AAA/Stable
Fund-Based Facilities*	500	CRISIL AAA/Stable
Fund-Based Facilities*	250	Withdrawn
Fund-Based Facilities*	350	CRISIL AAA/Stable
Fund-Based Facilities*	500	CRISIL AAA/Stable
Fund-Based Facilities	50	CRISIL AAA/Stable
Fund-Based Facilities	250	CRISIL AAA/Stable
Fund-Based Facilities*	350	Withdrawn
Fund-Based Facilities*	400	Withdrawn
Non-Fund Based Limit[^]	50	CRISIL A1+
Non-Fund Based Limit[^]	50	Withdrawn
Non-Fund Based Limit[^]	350	CRISIL A1+
Non-Fund Based Limit[^]	50	CRISIL A1+
Proposed Fund-Based Bank Limits	125	CRISIL AAA/Stable
Proposed Fund-Based Bank Limits	75	Withdrawn

*Interchangeable with non-fund-based limit

^Interchangeable with fund-based limit

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

[CRISILs Criteria for Consolidation](#)

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